

**Testimony  
Of  
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Of Realty Executives-Main Street, U.S.A.**

**On Behalf of the  
NATIONAL ASSOCIATION OF REALTORS®**

**Before The  
Senate Banking, Housing and Urban Affairs Committee  
On  
Proposals for Improving the Regulation of the Housing GSEs**

**United States Senate  
Washington, D.C.**

**October 23, 2003**

**Introduction**

Chairman Shelby, Senator Sarbanes, and Members of the Committee, I am Iona C. Harrison, a broker with Realty Executives-Main Street, U.S.A. in Upper Marlboro, Maryland. I am here on behalf of over 950,000 members of the National Association of Realtors® to share our views on the important issue of GSE regulation and the housing finance system.

For the record, Realtors® want to thank Senator Shelby, Senator Allard and members of the Committee for reporting the “American Dream Downpayment Act”. The Senate Banking Committee unanimously approved this bill with two important amendments. First, the bill increases the FHA multifamily loan limits in high cost areas. Second, the bill provides a technical correction to improve the FHA hybrid ARM program. NAR is a strong advocate for this program. In fact, NAR lead a coalition of supporters who are hopeful that the bill will come to the Senate floor shortly. By adopting the American dream downpayment legislation Congress will send a strong message supporting the Administration on increasing homeownership opportunities in the United States. This legislation is evidence of the importance this Congress and Administration place on homeownership opportunity in the United States. NAR believes that a new independent safety and soundness GSE regulator combined with continued HUD authority over housing programs and mission will ensure that this commitment remains a high priority in future years.

**GSE Regulatory Reform**

Realtors® applaud Congress and the Administration for what we believe could become a measured, well-considered refinement to regulating the government-sponsored enterprises, Fannie Mae and Freddie Mac. The Bush Administration has outlined principles that will

underscore the importance of the GSEs' mission, status, and safety and soundness oversight that make our housing finance system unique and so effective. Safety and soundness regulation would be lodged at the Treasury Department because of its financial expertise. Realtors® support this move because it sends a clear message to housing finance and investor markets. But while safety and soundness regulation may move to the Treasury, Realtors® strongly believe that the current housing mission should continue to be housed at the Cabinet-level Department of Housing and Urban Development. We strongly believe that HUD should continue to speak for housing, new GSE program oversight, and the GSEs' critical mission supporting homeownership.

Over the past decade the housing sector and American homeowners have benefited significantly from the strength of the nation's housing finance system. At the core of our housing finance system are the secondary mortgage market and the government-sponsored mission of Fannie Mae and Freddie Mac. The National Association of Realtors® supports a credible and vigorous GSE regulator. A strong regulator reinforces President Bush's and Congress commitment to housing and homeownership, promotes confidence in Fannie Mae, Freddie Mac, and the real estate and housing finance industries, and protects U.S. citizens against systemic risk. Although REALTORS® support a strong regulator, we insist that regulatory reform does not imply and should not result in any weakening of the current housing finance system.

Congress deemed the government-sponsored enterprise model as an appropriate vehicle to advance housing and housing policy as recently as 1992. Fannie Mae and Freddie Mac were chartered as private corporations with publicly traded stock with the mission to bring new mortgage products to the market, and to use innovation and technology to continue simplifying the mortgage process. In exchange for the federal charter to facilitate the residential secondary mortgage market, certain advantages were provided to Fannie Mae and Freddie Mac. Since enactment of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of Public Law 102-550), Congress, homeowners, the housing finance system, and the nation's economy have all benefited tremendously. The unprecedented expansion of homeownership rates is undeniable testament to the efficiency and liquidity of the secondary mortgage market and the housing sector.

### **Administration Regulatory Recommendations**

In recent testimony to the Senate Banking Committee, Treasury Secretary John Snow and HUD Secretary Mel Martinez outlined the powers, duties, and authorities a new GSE safety and soundness regulator should have in a new agency within the Treasury Department and the relationship that HUD would have going forward. The proposed new supervisory agency would focus on safety and soundness, together with program and product approval, in consultation with HUD. Secretary Snow urged consideration of an agency that would be independent of the congressional appropriations process, and that Treasury would have, at a minimum, clearance of new regulations and congressional testimony.

Secretary Martinez supported the Administration view that authority over new program approval be transferred from HUD to the new regulator in his testimony. Secretary Martinez advocated HUD retaining authority over the GSE affordable housing goals, and called for expanded

authority to enforce the housing goals, impose civil penalties for failure to meet the housing goals, explicitly provide that the GSEs act to increase homeownership, and expand authority to set housing goals and sub-goals.

NAR would like to comment on key elements of the Administration's plan that are most relevant for the real estate industry.

### **Independent Regulator**

Realtors<sup>®</sup> would agree that Fannie Mae and Freddie Mac should have an independent regulator for safety and soundness. We would recommend that the new regulatory agency in the Treasury Department should have necessary and sufficient firewalls to ensure its political and operating independence similar to those that currently exist for the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) regulatory models.

### **GSE Capital**

In outlining the authority for the new regulator regarding GSE capital, Secretary Snow highlighted in his testimony a need for stability in capital standards. "Capital," he said, "is the fundamental element of the financial condition of an enterprise, and the capital standards should not become the subject of frequent change." Realtors<sup>®</sup> agree with Secretary Snow on this general point regarding capital. These capital standards should be allowed to remain in place for a period of time sufficient to evaluate their effectiveness.

### **GSE Mission, Program and Product Review**

The Administration proposal to place GSE regulatory oversight and new program approval under the Treasury Department is a major change in regulatory oversight of the housing GSEs. Realtors<sup>®</sup> expressed opposition to moving GSE housing mission oversight from HUD when the Administration's plan was first released. Our concern is that housing policy has not been the purview or expertise of the Treasury Department; this has been the purview of HUD. The housing and real estate industries naturally look to HUD to address the housing mission, programs and products, and affordable housing goals that are central to the GSEs' existence. In the new GSE regulatory regime we strongly believe that HUD should maintain its primacy in these areas.

Secretary Martinez proposed that HUD continue to consult with the Treasury Department on new activities requested by the GSEs. Realtors<sup>®</sup> recognize that new programs and products could have an impact on safety and soundness considerations. But Realtors<sup>®</sup> believe that new program approval should remain at HUD with the same approval standards in current law. There is "substantial expertise," as stated by Secretary Martinez in his testimony on September 10 before the House Financial Services Committee regarding mortgage and housing markets programs. While Realtors<sup>®</sup> have considerable respect for the financial expertise at Treasury, HUD expertise as our nation's primary housing agency should not be relegated to a consultative role on matters of new programs approval or lines of business.

Secretary Snow and Secretary Martinez outlined the Administration's principles in subtle terms. Consequently, Realtors® are guarded about the direction of draft legislation that we understand will be the starting point for GSE regulatory reform. Significant revisions in the GSEs' role in the housing finance system could introduce uncertainties and unintended consequences that will have ill effects for the GSEs and the housing sector.

### **Federal Home Loan Banks**

Secretary Snow's recent testimony to this Committee reiterated a call to create a credible, single regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Realtors® do not have position on regulating the Federal Home Loan Banks.

### **Targeted, Not Sweeping Reform**

Realtors® firmly believe that targeted reform for the GSE regulatory system strengthens our housing finance system. We support a narrow bill that institutes safety and soundness regulatory reforms, and does no harm to the GSE housing mission, charter or status. Given the fragility of the economy with mixed, weak signals about recovery, Realtors® want to impress on lawmakers that safety and soundness concerns should not undermine the housing mission, programs and product innovations, or charter status of Fannie Mae and Freddie Mac. Targeted reform for the GSE regulatory system strengthens our housing finance system. Realtors® expect that Congress will act judiciously to assure a critical role for HUD in GSE mission, program development and review. Congress should assure that under new regulatory oversight Fannie Mae and Freddie Mac would thrive and continue their critical roles in supporting American homeownership. In short order, these companies should have the best opportunities to help our citizens achieve homeownership.

### **Conclusion**

We applaud the Committee's efforts to build a more robust GSE regulatory structure. The National Association of Realtors® believes that an overarching principle guiding any consideration of regulatory reform proposals should assure that reform not become a reason or justification for rewriting the GSEs' housing mission or weakening the housing finance system.

Congressional intent and the nation's homeowners have been well served since 1992 when the GSEs' charter, mission, and status were reaffirmed. What is needed is a strong, rigorous safety and soundness regulator, while HUD retains mission and new program oversight.

The National Association of Realtors® looks forward to reviewing the proposed legislation to reinvigorate GSE regulation. Realtors® want to work with Congress to continue addressing housing and homeownership issues and supporting the mission and charter objectives of the housing GSEs.